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As I see

## THE COST OF 30- AND 35-YEAR MORTGAGES

FOR many years sociologists, builders, and real estate operators have been trying to lower the monthly cost of home ownership to enable a larger percentage of American families to own their own homes. These aims are all laudable, as in the greater percentage of cases a home-owning family is a more responsible neighborhood unit than a renting family. To own some land and a building gives the owner a personal interest in many political and tax problems which otherwise affected him very little.

The obvious advantages of lowering the monthly payments on the purchase of homes are so self-evident that these advantages are apt to crowd out some of the hidden costs which are not so apparent. The strong backing in Congress of the housing bill recently vetoed for 35-year mortgages insured by the FHA is evidence of this point.

By extending the period of an FHA mortgage from 10 years to 35 years it would be possible, if the mortgage is at 5-1/4%, to reduce the total monthly payments, including loan insurance, from $11.13 a month per thousand dollars of mortgage to $5.63.

Table I below shows the cost per month per thousand dollars of loans for from 10 to 35 years at interest rates of from 4% to 6%. Using the previous illustration of a 10- and a 35-year mortgage at 5-1/4%, if the mortgage totals $10,000, the difference in the size of the payments amounts to $55 a month. This being the case, why not go to the 35-year mortgage and enable countless thousands of families who cannot now meet the monthly payments to become home owners?

### TABLE I

COST PER MONTH PER THOUSAND DOLLARS OF LOAN
FOR FROM 10 TO 35 YEARS

| Term - Years | 4% | 4½% | 5% | 5½% | 6% |
|---|---|---|---|---|---|
| 10 | $10.13 | $10.36 | $10.61 | $10.86 | $11.10 |
| 15 | 7.40 | 7.65 | 7.91 | 8.17 | 8.44 |
| 20 | 6.06 | 6.33 | 6.60 | 6.88 | 7.16 |
| 25 | 5.28 | 5.56 | 5.85 | 6.14 | 6.44 |
| 30 | 4.78 | 5.07 | 5.37 | 5.68 | 6.00 |
| 35 | 4.43 | 4.73 | 5.05 | 5.37 | 5.70 |

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Part of the cost of buying a home for the individual needing financing is the cost of interest. It should be more or less self-evident that the loan paid off over a longer period of years will result in a larger total amount of interest than the loan which is paid off quickly. Table II shows the interest cost per thousand dollars of loan for those amortized in 10 to 35 years at rates of interest from 4% to 6%. We have not listed in this table 5-3/4% - the present FHA rate including loan insurance premium - as I believe it will be necessary to increase this rate in order to attract sufficient capital, particularly into longer loans. If 6% is used as an interest rate plus loan insurance, we find that in 10 years an individual with a $10,000 loan has paid $3,322.50 in interest and insurance, but if he decided to pay off his loan over 35 years, in spite of the much lower total monthly payment, we find that in the 35 years he has paid $13,948 in interest and insurance. This, of course, is in addition to the $10,000 principal which he repays over the 35-year period.

TABLE II

INTEREST COST PER THOUSAND DOLLARS OF LOAN

| Term - Years | 4% | 4½% | 5% | 5½% | 6% |
|---|---|---|---|---|---|
| 10 | $214.94 | $243.66 | $ 272.79 | $ 302.32 | $ 332.25 |
| 15 | 331.44 | 376.99 | 423.43 | 470.75 | 518.94 |
| 20 | 454.35 | 518.36 | 583.89 | 650.93 | 719.43 |
| 25 | 583.51 | 667.50 | 753.77 | 842.26 | 939.90 |
| 30 | 718.70 | 824.07 | 932.56 | 1,044.04 | 1,158.38 |
| 35 | 859.65 | 987.68 | 1,119.69 | 1,255.47 | 1,394.80 |

Table III, at the top of the opposite page, shows the difference in interest cost on mortgages caused by increasing the length of the mortgage. This, too, is expressed in dollars per thousand dollars of loan. In order to convert it to our example of a $10,000 loan, multiply the figures in the table by 10. From this table we would learn that to increase a 10-year loan to a 35-year loan would increase the interest cost by $10,625.50. A 15-year loan, increased to 35 years, would increase the interest cost by $8.758.60. A 20-year loan, increased to 35 years, would increase the interest cost by $6,753.70. A 25-year loan, increased to 35 years, would increase the interest cost by $4,619. A 30-year loan, increased to 35 years, would increase the interest cost by $2,364.20.

There is, of course, no assurance that mortgage lenders would be willing to accept 35-year loans even at higher interest rates. The mortgage term has, however, become progressively longer. The original 15 years on HOLC loans in 1933 has changed to FHA loans originally limited to 20 years, then 25, and now 30.

There is much which can be said on the other side of the picture, and

## TABLE III

### DIFFERENCE IN COST BY INCREASING TERM

| Term increased | | 4% | 4½% | 5% | 5½% | 6% |
|---|---|---|---|---|---|---|
| from 10 years to | 15 years | $116.50 | $133.33 | $150.64 | $168.43 | $ 186.69 |
| 10 | 20 | 239.41 | 274.70 | 311.10 | 348.61 | 387.18 |
| 10 | 25 | 368.57 | 423.84 | 480.98 | 539.94 | 600.65 |
| 10 | 30 | 503.76 | 580.41 | 659.77 | 741.72 | 826.13 |
| 10 | 35 | 644.71 | 744.02 | 846.90 | 953.15 | 1,062.55 |
| 15 | 20 | 122.91 | 141.37 | 160.46 | 180.18 | 200.49 |
| 15 | 25 | 252.07 | 290.51 | 330.34 | 371.51 | 413.96 |
| 15 | 30 | 387.26 | 447.08 | 509.13 | 573.29 | 639.44 |
| 15 | 35 | 528.21 | 610.69 | 696.26 | 784.72 | 875.86 |
| 20 | 25 | 129.16 | 149.14 | 169.88 | 191.33 | 213.47 |
| 20 | 30 | 264.35 | 305.71 | 348.67 | 393.11 | 438.95 |
| 20 | 35 | 405.30 | 469.32 | 535.80 | 604.54 | 675.37 |
| 25 | 30 | 135.19 | 156.57 | 178.79 | 201.78 | 225.48 |
| 25 | 35 | 276.14 | 320.18 | 365.92 | 413.21 | 461.90 |
| 30 | 35 | 140.95 | 163.61 | 187.13 | 211.43 | 236.42 |

many of these positive factors have not been spelled out. Following are a few of the more obvious factors.

1. The man who pays off his mortgage in 10 years has less chance to benefit from inflation than the man who pays it off over a longer period. The probability is that we will continue to inflate in the United States over a long period of years, and the chances are that the dollar 10 years from now, 20, and 30 years from now will buy progressively less. This means that the individual with the long-term loan will be paying off his loan with cheaper dollars in the latter part of the period, which will compensate to a large extent for the higher interest cost.

2. While the cost of home ownership is high on this long loan basis, the alternate cost of not owning a home may be considerably greater. By this I mean that the man who does not buy a home does not save all of his money, as his collection of rent receipts should prove. If he wants to occupy the same number of square feet of space in the same quality of housing, his monthly housing cost will be greater if he rents than if he buys, even on a 35-year basis. This would be true even though we ignore the fact that the interest he pays on his mortgage and the real estate taxes he pays on his home are both deductible items on his Federal income tax. The renter cannot take a similar deduction, in spite of the fact that real estate taxes paid by his landlord and interest on the investment are concealed in his rent bill. If he lives in a State

with homestead tax exemption the owner will have another advantage over the renter.

If we continue to inflate, as I think we will, construction costs will continue up, which means that rental units built in the future will be built at a higher cost. This means that they must be rented at a higher rental in order to pay a return on the investment. Over the long period, residential rents must rise, as they are now very low in relationship to construction costs. This means that the rental cost of not buying will increase.

From the standpoint of the lender the longer loan is not desirable. It is not wise at the present time to tie up too much capital for very long periods, as there is considerable chance that interest rates will rise much further.

There is also the problem of safety. A 35-year loan at 5-1/4% pays off only 13.1% of the principal in the first 10 years. This will not even offset sales commission and depreciation during this period. Even a 30-year loan pays off only 18% in the first 10 years; a 25-year loan pays off 25.4% in that period.

I have always been a strong advocate of substantial equities and of loans paid off as rapidly as possible. I realize that a speculator in an inflationary market may make larger profits with small equities and large loans. The man with a large equity will sleep better regardless of what conditions develop than the man who buys on a shoestring. This study would indicate, however, that even the shoestring buyer, if he could secure a 35-year loan, would pay less than the man who rents, and in addition, at the end of 35 years he would own the property clear, while the renter has accumulated a splendid collection of rent receipts.

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